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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000251

SIPDIS

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TO NSC JEFF HOVENIER AND KHELGERSON

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SUBJECT: GORDON BAJNAI: HE WHO WOULD BE PM...FOR NOW

REF: A. BUDAPEST 225

[1](#)B. BUDAPEST 234

Classified By: Acting P/E Counselor Jon Martinson, reason 1.4 (b,d)

[1](#)1. (SBU) The Socialists (MSzP) and the Free Democrats (SzDSz) identify Minister of National Development and Economy Gordon Bajnai as their choice to replace outgoing Prime Minister Gyurcsany (septel). A political outsider and investment banker by training, forty-one year old Gordon Bajnai is not a household name in Hungary, having assumed his first government post in 2006 when he was named head of Hungary's National Development Agency. He previously served in management positions at a number of securities firms, including Wallis Plc, Eurocorp International Finance, and CA IB Securities, Plc. He graduated as an economist from the University of Economics in Budapest in 1991. In July 2007, PM Gyurcsany appointed him Minister for Local Government and Regional Development. In May 2008, he was appointed Minister of a reorganized Ministry for National Development and Economy.

A Voice For Reform

[1](#)2. (C) Bajnai has been among the strongest voices in the cabinet for structural economic reforms, at times calling for reform measures even beyond those taken by the government. As a newer minister and a political outsider, however, some have questioned his influence within the government. Bajnai admitted to the Ambassador recently that he lacks support "from elements within the Socialist Party." Following a recent AmCham speech, one observer noted, "Minister Bajnai clearly understands the problem, but can he do anything about it?"

[1](#)3. (C) In a meeting with Ambassador Foley last week, when Bajnai was not considered front-runner for PM, he told the Ambassador he believes the best outcome would be for an "expert government" to be formed to undertake deeper and continuing economic reforms, which would hopefully be continued by whatever government is elected in 2010. SzDSz has similarly argued that a "crisis government" should be comprised of economic experts and technocrats, and has reportedly insisted that at least half of the current ministers be replaced under a new government.

[1](#)4. (C) In terms of economic reform, Minister Bajnai has noted the need for "paradigmatic change" and "radical measures to increase competitiveness." He has stated that "if Hungary wants to survive, it must facilitate growth by expenditure and tax cuts." He cautions that "we may be forced to take painful measures, but this will help avoid bigger

problems...Either we manage the crisis, or the crisis manages us." In the past, Bajnai has argued for making the pension system more sustainable, by raising the retirement age and eliminating the so-called "Swiss indexation" of pensions. He has also expressed support for Hungary joining the eurozone as quickly as possible.

15. (C) Having just been identified as the candidate for Prime Minister, Bajnai has not yet announced his plan for the Hungarian economy. Early reports have already dubbed his forthcoming proposals "a plan of blood, sweat and tears" that will likely include several hundred billion forints in additional austerity measures beyond those announced by the current government. Such measures are reported to include shortening maternity leave allowances, eliminating price subsidies (gas and central heating) and tightening rules for early retirement.

Socialist Support For His Program?

16. (C) For some within the Socialist Party, Bajnai is likely to be considered the "lesser of two evils" over conceding to early elections. Although his structural reforms will likely impact traditional socialist voters like pensioners and social assistance recipients, the alternative - early elections in which the opposition Fidesz party may win a two-thirds majority in Parliament - is unthinkable to many in the MSZP. This causes some commentators, like Progressive Institute's Kornelia Magyar, to assert that Bajnai's position is relatively strong. In addition, many Socialist MP's see agreeing to Bajnai as a way of ending the marathon succession

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search, which has cost them in the polls and has amplified the public call for early elections. Some have also argued that this is the last chance the Socialists have to demonstrate they are capable of governing. That said, Post believes that some Socialist MPs will have difficulty supporting Bajnai's candidacy during the constructive vote-of-no-confidence on April 14, even if the motion's failure leads to early elections. Although interested in retaining their parliamentary seats for as long as possible, Bajnai's past recommendations, if adopted, would have a significant impact on Socialist's constituents. As Finance Minister Veres and Defense Minister Szekeres have both noted during the past several weeks, Socialist values must not be forgotten when developing programs in response to the economic crisis.

Bullish on Bajnai, Bearish on the Situation

17. (C) The markets and the international business community are likely to react positively to Bajnai's candidacy, but the MSZP's protracted difficulties in finding a willing and acceptable candidate, together with threats of demonstrations and a continuing call for early elections from the political right create an atmosphere of uncertainty which could cause markets to remain volatile over the near term. Some commentators believe that despite their continued calls for early elections, Fidesz finds itself very well situated - in 2010 they will be able to blame the Socialists for the country's economic problems, yet they will not be associated with Bajnai's painful austerity measures.

18. (C) Comment. A committed reformer, Bajnai is expected to undertake all measures he believes the public can tolerate to help increase competitiveness and the country's potential for economic growth. His lack of political affiliation means he has "less to lose" than career politicians in pursuing austerity measures; indeed, he maintains that he has "no political ambition" and does not care about popularity. The looming election in 2010 adds urgency to his program, and we expect that he will announce significant measures early. He remains largely untested in crisis, however, and it is unclear how he will respond if faced with large scale labor unrest or mass demonstrations by those calling for early

elections. His reform agenda also faces challenges if the economic climate worsens or fails to quickly show signs of recovery, or if support from some Socialist Party MPs begins to waiver as elections near. As Prime Minister, Bajnai has much to accomplish in a short period of time, but has very little room to maneuver. End comment.
Foley